

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	JKCE IN
Equity Shares (m)	77
M.Cap.(INRb)/(USD\$b)	188.4 / 2.4
52-Week Range (INR)	3837 / 2135
1, 6, 12 Rel. Per (%)	-3/-22/-24
12M Avg Val (INR M)	375

Financial Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	79.9	89.8	99.3
EBITDA	14.8	14.3	18.9
Adj. PAT	6.8	6.0	8.0
EBITDA Margin (%)	18.6	15.9	19.0
Adj. EPS (INR)	87.9	77.7	103.4
EPS Gr. (%)	(3.4)	(11.7)	33.1
BV/Sh. (INR)	560	615	694

Ratios

Net D:E	0.6	0.6	0.6
RoE (%)	17.0	13.2	15.8
RoCE (%)	11.2	8.9	11.0
Payout (%)	17.1	28.3	24.2

Valuations

P/E (x)	27.7	31.4	23.6
P/BV (x)	4.4	4.0	3.5
EV/EBITDA(x)	13.7	13.6	11.5
EV/ton (USD)	155	147	133
Div. Yield (%)	0.6	0.9	1.0
FCF Yield (%)	(3.8)	(0.3)	2.9

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	45.8	51.5	57.7
DII	20.7	19.8	20.6
FII	16.5	17.7	16.9
Others	17.1	11.0	4.9

FII Includes depository receipts

CMP: INR2,439 **TP: INR2,700 (+11%)** **Neutral**

Demand weakness and cost pressures loom

In line performance; further impairs its UAE investment

- Operating profit stood at INR3.8b in 4QFY22 (est. INR4b). Adjusted profit (adjusted for impairment of INR1.3b to its investments in its UAE subsidiary) stood at INR1.9b (est. INR2b).
- We reduce our FY23E/FY24E consolidated EBITDA by 5%/1% and EPS by 8%/9% on higher energy costs and interest expense. Valuations at 13.6x/11.5x FY23E/FY24E EV/EBITDA (v/s an average one-year forward EV/EBITDA of 10.8x for the last seven years) appear rich, given the current phase of earnings volatility. We maintain our **Neutral** rating on JKCE.

Higher-than-expected cost increase offsets higher realization

- Standalone revenue/EBITDA/adjusted PAT stood at INR22.7b/INR3.8b/INR1.9b (+11%/-13%/-21% YoY and +2%/-5%/-5% v/s our estimate). Total sales volume rose 1% YoY (flat for White Cement, but 1% higher for Gray Cement). Blended realization rose 9% YoY (2% higher than our estimate), led by a 12% increase in Gray Cement realization (down 1% YoY for White Cement).
- OPEX/t was up 16% YoY (3% higher than our estimate), led by a 30%/9% increase in variable/freight cost. Employee cost/t increased by 10% YoY. Higher OPEX led to a 13% YoY decline in EBITDA and 4.5pp YoY fall in OPM to 16.9%. EBITDA/t was down 14% YoY and 13% QoQ.
- Volumes/realization rose 17%/4% YoY in FY22, leading to a 21% growth in revenue. EBITDA was flat YoY at INR15b due to higher costs (up 10% YoY). EBITDA/t stood at INR1,108 v/s INR1,301 in FY21.
- Consolidated CFO stood at INR7.5b v/s INR15.9b in FY21 due to a rise in its working capital requirements. Capex stood at INR14.7b v/s INR8.2b, which led to FCF outflows of (INR7.2b) v/s INR8.2b in FY21.

Highlights from the management commentary

- There has been some recent weakness in demand, which has impacted the industry's ability to pass on the entire cost inflation. Cement prices in North India have risen by INR25-35/bag after Mar'22. However, there is not much of an increase in South India. Total price increase required to pass on the entire cost inflation was INR50-60/bag.
- Average energy cost/t is expected to increase by INR150/t in 1QFY23. At current coal/petcoke prices, cost inflation seems to be INR400-500/t. The entire impact will be felt in 2QFY23.

Valuations rich; maintain our Neutral rating

- JKCE is in the process of increasing its Gray Cement grinding capacity by 4mtpa in Central India by Mar'23 (current capacity: 14.5mtpa). Higher limestone reserves in Panna, Madhya Pradesh (518mt) can help it increase capacities by 8mtpa (assuming a 30-year plant life).
- We value its White/Gray Cement business at 13x/12.5x FY24E EV/EBITDA to arrive at a TP of INR2,700 per share (from INR2,950 earlier). We await a better entry point and maintain our **Neutral** rating on the stock.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales Dispatches (mt)	1.77	2.81	3.17	3.89	3.03	3.33	3.32	3.93	11.64	13.61	3.91	0
YoY Change (%)	(23.5)	25.5	23.9	46.0	71.4	18.5	4.8	1.0	19.1	16.9	0.5	
Realization (INR/t)	5,464	5,517	5,556	5,270	5,398	5,510	5,842	5,770	5,437	5,641	5,677	2
YoY Change (%)	(5.0)	(1.5)	1.2	(4.8)	(1.2)	(0.1)	5.1	9.5	(2.7)	3.8	7.7	
QoQ Change (%)	(1.3)	1.0	0.7	(5.1)	2.4	2.1	6.0	(1.2)			(2.8)	
Net Sales	9,650	15,507	17,601	20,525	16,337	18,355	19,404	22,690	63,283	76,786	22,221	2
YoY Change (%)	(27.3)	23.6	25.3	38.9	69.3	18.4	10.2	10.5	15.8	21.3	8.3	
Total Expenditure	7,497	11,400	13,113	16,134	12,341	14,805	15,696	18,863	48,144	61,705	18,197	4
EBITDA	2,153	4,107	4,488	4,391	3,996	3,550	3,708	3,827	15,139	15,081	4,024	(5)
Margin (%)	22.3	26.5	25.5	21.4	24.5	19.3	19.1	16.9	23.9	19.6	18.1	(124)
Depreciation	580	597	622	649	657	687	719	757	2,447	2,820	764	(1)
Interest	572	537	593	529	560	591	653	689	2,232	2,493	669	3
Other Income	203	287	303	340	273	480	264	412	1,134	1,428	344	20
PBT before EO expense	1,204	3,260	3,576	3,553	3,052	2,752	2,600	2,792	11,594	11,195	2,934	(5)
Extra-Ord. expense	0	0	0	1,669	0	260	0	1,300	1,669	1,560	0	
PBT	1,204	3,260	3,576	1,885	3,052	2,492	2,600	1,492	9,925	9,635	2,934	(49)
Tax	427	1,025	1,194	1,251	969	803	926	630	3,897	3,329	957	
Rate (%)	35.5	31.4	33.4	66.4	31.8	32.2	35.6	42.2	39.3	34.5	32.6	
Reported PAT	777	2,235	2,383	633	2,083	1,688	1,673	863	6,028	6,306	1,978	(56)
Adj. PAT	777	2,235	2,383	2,395	2,083	1,865	1,673	1,882	7,790	7,503	1,978	(5)
YoY Change (%)	(49.5)	105.5	73.2	34.3	168.1	(16.6)	(29.8)	(21.4)	34.6	(3.7)	(21.6)	

Source: Company, MOFSL estimates

Standalone quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gray Cement (mt)	1.6	2.5	2.8	3.5	2.8	2.9	2.9	3.5	10.3	12.1	3.5	0
Growth (%)	(19.3)	28.4	25.0	48.1	73.5	20.0	4.8	1.1	21.9	17.7	0.9	
As a percentage of total volume	90.0	87.2	87.0	89.9	91.1	88.3	86.9	90.0	88.5	89.1	90.3	
White Cement (mt)	0.2	0.4	0.4	0.4	0.3	0.4	0.43	0.4	1.3	1.5	0.4	3
Growth (%)	(48.0)	8.8	16.6	29.4	52.5	8.2	5.3	0.1	1.1	10.8	(3.1)	
As a percentage of total volume	10.0	12.8	13.0	10.1	8.9	11.7	13.1	10.0	11.5	10.9	9.7	
Per tonne analysis (INR)												
Net realization	5,464	5,517	5,556	5,270	5,398	5,510	5,842	5,770	5,437	5,641	5,677	2
RM Cost	1,106	877	841	880	794	960	849	1,076	903	934	853	26
Employee Expenses	538	347	347	282	409	390	388	309	354	370	331	(7)
Power, Oil, and Fuel	867	970	1,023	908	988	1,032	1,310	1,254	948	1,155	1,310	(4)
Freight and handling	994	1,050	1,100	1,080	1,105	1,147	1,154	1,175	1,065	1,148	1,166	1
Other Expenses	740	812	828	992	781	916	1,024	983	866	927	989	(1)
Total Exp.	4,245	4,056	4,139	4,143	4,078	4,445	4,725	4,797	4,136	4,533	4,649	3
EBITDA	1,219	1,461	1,417	1,127	1,320	1,066	1,116	973	1,301	1,108	1,028	(5)

Source: Company, MOFSL estimates



Highlights from the management commentary

Key takeaways

- There has been some weakness in demand of late, which has impacted the industry's ability to pass on the entire cost inflation. Cement prices in North India have risen by INR25-35/bag after Mar'22. However, there is not much of an increase in South India. Total price increase required to pass on the cost inflation will be INR50-60/bag at current coal/petcoke prices as well as an increase in other costs (freight, packaging cost, etc.).
- White Cement price is expected to improve in domestic market due to a) a 5-7% price increase in imported White Cement, and b) a depreciation of ~5% in the USD:INR. This will help to offset cost inflation.
- It has formed a subsidiary for its Paints business. It is looking to acquire land and the plant is expected to be completed by Mar'24.

Operational highlights

- Gray Cement capacity utilization stood at 92% v/s 73% in 3QFY22. Premium product sales stood at 7% of trade volumes.
- JKCE used 50% petcoke and 20-25% imported coal in 4QFY22, while the rest was AFR/domestic coal. The thermal substitution rate has increased to 9%.
- The average petcoke consumption cost rose to INR15,027/t in 4Q v/s INR13,000/t in 3QFY22. The average cost of coal/petcoke stood at INR9,308/t in 4Q v/s INR8,700 in 3QFY22. Since the price of petcoke increased by INR4,000-5,000/t in Apr'22, petcoke consumption cost may increase further by 15-20%.
- Average energy cost/t is expected to increase by INR150/t in 1QFY23. At current coal/petcoke prices, cost inflation seems to be INR400-500/t. The entire impact will be felt in 2QFY23, if coal/petcoke prices remain elevated. The company has three months of coal inventory.
- Trade sales stood at 68% of total volumes. Blended Cement sales stood at 38% of volumes. The rail:road mix stood at 17:83%. Lead distance stood at 457km.

Highlights from its UAE subsidiary operations

- Impairment of INR1.3b has been taken for its UAE plant, considering the current scenario (profitability has been impacted due to the significant cost increase, which could not be passed on to consumers). Since profitability is expected to remain under pressure over the next 1-1.5 years, a decision on further impairment was made. Total investment in this plant was INR9.72b and an impairment of INR4.23b has been taken till date. There is no consideration for divesting this plant as it will impact availability of White Cement in India. The company has not been able to increase volumes from this plant to South Africa, despite better demand due to higher ocean freight and unavailability of containers.
- Import duty on White Cement will be cut to nil v/s 10% from UAE as both countries have signed a free trade agreement. As this reduction in duties will be in phases (0.5% for the first four years), there should not be any impact on White Cement prices in the domestic market. Also, its plants in the UAE are operating at optimum capacities.

Capex update

- Expansion work at Panna (IU) is at an advanced stage, with 25% equipment erection already complete. Work at Hamirpur (GU) is progressing ahead of

schedule, and erection of equipment has started. The project is expected to be completed by Mar'23.

- Capex in FY23 is pegged at INR16-17b (INR11-12b for the Panna expansion, normal capex of INR3b, and INR1.5b for the Paints business and other grinding units). In FY24, capex will be INR10.5-11b (INR4b for the Panna expansion, INR3b of normal capex, INR1b for the Paints business, and INR2.5-3b for grinding units). The company has identified the location for setting up new grinding units in Uttar Pradesh and Madhya Pradesh and will be acquiring land. The final decision will be taken after completion of the Panna clinker plant.

Debt and other highlights

- Consolidated long-term debt stands at INR21.5b. Around INR12.5b of additional loans will be taken for the Panna plant (INR4.5b has already been taken). It will be making annual repayments of INR3b. Considering its long-term debt only, net debt can increase by a further INR10b.
- The management aims to reduce CO2 emissions to 465kg/t of Cementitious product by CY30 v/s 556kg/t in FY22. This will be improved through: 1) higher usage of green power (75% in FY30 v/s 33% in FY22), and 2) increase in thermal substitution (35% by FY30 v/s 9% in FY22).

Exhibit 1: Revisions to our estimates

(INR m)	Revised estimate		Old estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	89,807	99,260	87,016	93,864	3.2	5.7
EBITDA	14,296	18,906	15,025	19,026	(4.8)	(0.6)
Net Profit	6,000	7,986	6,511	8,781	(7.9)	(9.0)
EPS (INR)	77.7	103.4	84.3	113.6	(7.9)	(9.0)

Source: MOFSL Estimates

Key exhibits

Exhibit 2: Total sales volumes up 1% YoY

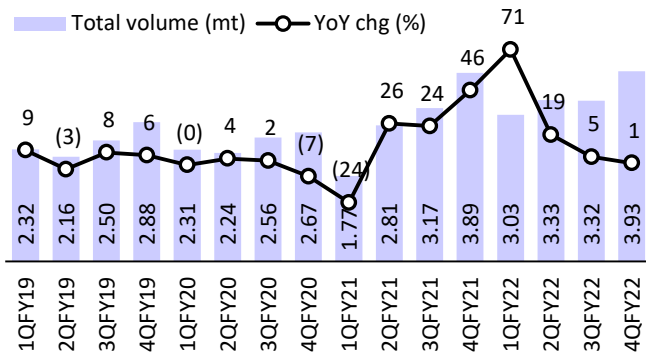


Exhibit 3: Gray Cement realization up 12% YoY and 5% QoQ

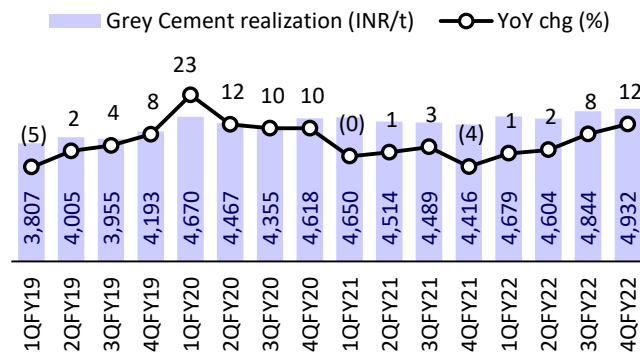


Exhibit 4: OPEX/t up 16% YoY and 2% QoQ...

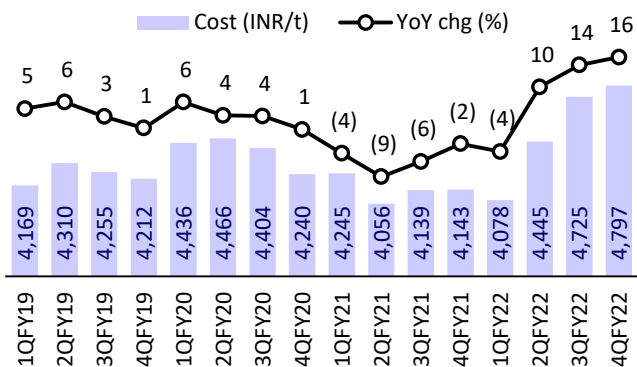


Exhibit 5: ...leading to a 14% YoY drop in EBITDA/t

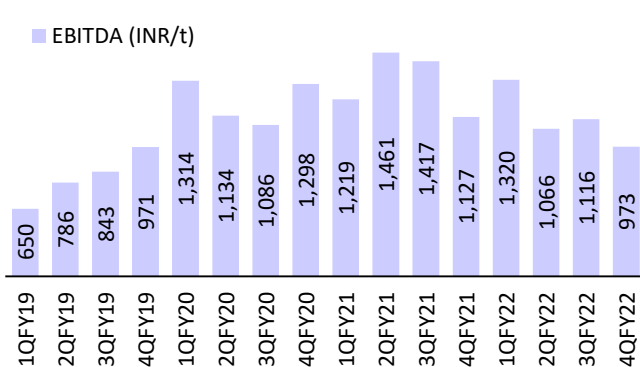
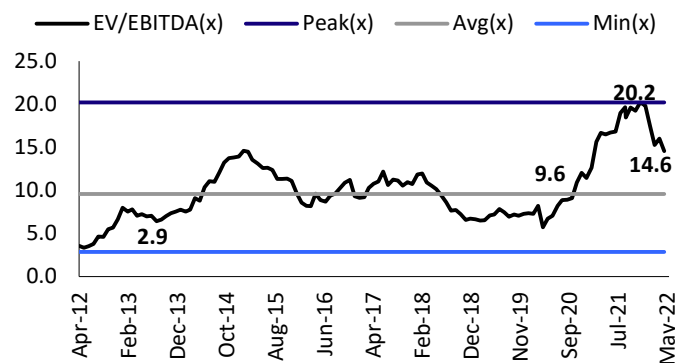


Exhibit 6: Key operating metrics (blended)

INR/t	4QFY22	4QFY21	YoY (%)	3QFY22	QoQ (%)
Blended realization	5,770	5,270	9	5,842	(1)
Gray Cement realization	4,932	4,416	12	4,844	2
White Cement realization	12,156	12,262	(1)	11,615	5
Raw Material Cost	1,076	880	22	849	27
Staff Cost	309	282	10	388	(20)
Power and fuel	1,254	908	38	1,310	(4)
Freight and selling Exp.	1,175	1,080	9	1,154	2
Other Exp.	983	992	(1)	1,024	(4)
Total Exp.	4,797	4,143	16	4,725	2
EBITDA	973	1,127	(14)	1,116	(13)

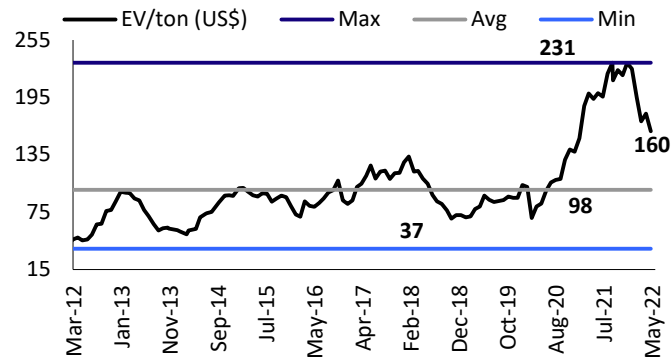
Source: Company, MOFSL

Exhibit 7: One-year forward EV/EBITDA ratio



Source: Company, MOFSL

Exhibit 8: One-year forward EV/t



Source: Company, MOFSL

Consolidated financials and valuations

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	40,214	48,535	52,587	58,016	66,061	79,908	89,807	99,260
Change (%)	7.3	20.7	8.3	10.3	13.9	21.0	12.4	10.5
EBITDA	7,261	7,875	8,345	12,134	15,387	14,824	14,296	18,906
Margin (%)	18.1	16.2	15.9	20.9	23.3	18.6	15.9	19.0
Depreciation	2,169	2,313	2,413	2,880	3,062	3,425	3,801	4,942
EBIT	5,092	5,561	5,932	9,255	12,325	11,399	10,495	13,964
Int. and Finance Charges	3,027	2,841	2,611	2,764	2,528	2,697	2,645	3,423
Other Income – Rec.	984	1,269	804	853	1,130	1,429	1,319	1,424
PBT bef. EO Exp.	3,049	3,989	4,124	7,344	10,927	10,131	9,169	11,966
EO Expense/(Income)	193	157	0	0	0	0	0	0
PBT after EO Exp.	2,856	3,832	4,124	7,344	10,927	10,131	9,169	11,966
Current Tax	705	941	1,037	1,593	3,296	2,429	2,476	3,979
Deferred Tax	432	35	451	917	600	908	693	0
Tax Rate (%)	39.8	25.5	36.1	34.2	35.7	32.9	34.6	33.3
Reported PAT	1,719	2,856	2,636	4,834	7,031	6,794	6,000	7,986
PAT adj. for EO items	1,835	2,973	2,636	4,834	7,031	6,794	6,000	7,986
Change (%)	234.8	62.0	-11.3	83.4	45.5	-3.4	-11.7	33.1
Margin (%)	4.6	6.1	5.0	8.3	10.6	8.5	6.7	8.0
Less: Minority Interest	-57.7	-39.9	-67.1	-90.0	-66.2	-77.0	0.0	0.0
Net Profit	1,893	3,013	2,703	4,924	7,097	6,871	6,000	7,986

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	699	699	773	773	773	773	773	773
Total Reserves	16,408	19,049	26,249	29,504	36,595	42,476	46,776	52,831
Net Worth	17,107	19,749	27,022	30,277	37,367	43,249	47,549	53,604
Deferred Liabilities	2,599	2,670	3,123	4,173	5,930	7,383	8,076	8,076
Minority Interest	40	0	-72	-203	-257	-343	-343	-343
Total Loans	30,961	27,306	26,779	32,840	34,017	38,549	43,549	42,549
Capital Employed	50,706	49,724	56,852	67,086	77,057	88,838	98,831	1,03,886
Gross Block	58,456	59,334	62,681	75,780	82,126	91,614	95,335	1,28,935
Less: Accum. Deprn.	13,039	14,900	17,313	20,235	22,752	26,177	29,978	34,920
Net Fixed Assets	45,417	44,433	45,367	55,545	59,374	65,437	65,357	94,015
Capital WIP	1,267	1,043	5,618	5,295	5,093	10,321	24,600	2,000
Total Investments	803	1,189	4,383	458	1,422	2,157	2,157	2,157
Curr. Assets, Loans, and Adv.	16,621	17,877	18,810	24,122	32,831	36,115	33,182	33,535
Inventory	5,609	5,898	6,365	6,904	7,566	12,087	9,473	10,374
Account Receivables	2,019	2,358	2,606	2,677	3,615	4,268	4,077	4,216
Cash and Bank Balance	4,353	5,595	5,115	9,649	16,416	10,793	10,965	10,077
Loans and Advances	4,640	4,026	4,722	4,892	5,233	8,967	8,667	8,867
Curr. Liability and Prov.	13,403	14,818	17,325	18,334	21,663	25,192	26,465	27,821
Account Payables	13,074	14,316	16,809	16,725	20,276	23,803	25,013	26,302
Provisions	329	502	516	1,609	1,388	1,389	1,452	1,519
Net Current Assets	3,219	3,059	1,484	5,788	11,167	10,923	6,717	5,713
Appl. of Funds	50,706	49,724	56,852	67,086	77,057	88,838	98,831	1,03,886

Source: Company, MOFSL estimates

Consolidated financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)*								
Consol. EPS	26.2	42.5	34.1	62.6	91.0	87.9	77.7	103.4
Cash EPS	57.3	75.6	65.3	99.8	130.6	132.3	126.8	167.3
BV/Share	244.6	282.4	349.7	391.8	483.6	559.7	615.4	693.7
DPS	7.2	9.0	10.0	17.5	15.0	15.0	22.0	25.0
Payout (%)	39.2	29.5	35.3	33.7	16.5	17.1	28.3	24.2
Valuation (x)*								
P/E			71.5	39.0	26.8	27.7	31.4	23.6
Cash P/E			37.3	24.4	18.7	18.4	19.2	14.6
P/BV			7.0	6.2	5.0	4.4	4.0	3.5
EV/Sales			3.8	3.5	3.0	2.6	2.2	2.2
EV/EBITDA			24.0	17.0	13.0	13.7	13.6	11.5
EV/t (USD)			207	166	151	155	147	133
Dividend Yield (%)			0.4	0.7	0.6	0.6	0.9	1.0
Return Ratios (%)								
RoIC	7.1	9.6	9.1	13.0	15.0	12.8	10.8	12.4
RoE	11.5	16.4	11.6	17.2	21.0	17.0	13.2	15.8
RoCE	7.7	10.7	8.5	11.4	12.9	11.2	8.9	11.0
Working Capital Ratios								
Asset Turnover (x)	0.8	1.0	0.9	0.9	0.9	0.9	0.9	1.0
Inventory (Days)	50.9	44.4	44.2	43.4	41.8	55.2	38.5	38.1
Debtor (Days)	16	17	18	17	20	19	17	16
Creditor (Days)	119	108	117	105	112	109	102	97
Working Capital Turnover (Days)	-10	-19	-25	-24	-29	1	-17	-16
Leverage Ratio (x)								
Current Ratio	1.2	1.2	1.1	1.3	1.5	1.4	1.3	1.2
Debt/Equity ratio	1.8	1.4	1.0	1.1	0.9	0.9	0.9	0.8

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	2,856	3,832	4,124	7,344	10,927	10,131	9,169	11,966
Depreciation	2,170	2,313	2,413	2,880	3,062	3,425	3,801	4,942
Interest and Finance Charges	2,527	2,348	2,209	1,975	1,666	2,697	2,645	3,423
Direct Taxes Paid	-633	-996	-977	-1,530	-1,959	-2,429	-2,476	-3,979
(Inc.)/Dec. in WC	416	1,193	-778	2,819	1,715	-5,379	4,378	116
CF from Operations	7,335	8,691	6,991	13,488	15,411	8,445	17,517	16,467
Others	382.9	140.7	5	179.2	490	-967	0	0
CF from Operations incl. EO	7718.2	8831.2	6996.1	13,668	15,901	7,478	17,517	16,467
(Inc.)/Dec. in FA	-3,840	-1,443	-6,191	-12,428	-7,678	-14,716	-18,000	-11,000
Free Cash Flow	3,879	7,388	805	1,240	8,223	-7,238	-483	5,467
(Pur.)/Sale of Investments	8	-369	-3,193	-2,622	-11,747	-734	0	0
Others	192	1,642	182	6,998	11,665	2,234	0	0
CF from Investments	-3,640	-170	-9,202	-8,052	-7,760	-13,216	-18,000	-11,000
Issue of Shares	0	0	5,043	0	0	0	0	0
Inc./(Dec.) in Debt	328	-4,010	328	3,133	1,120	4,532	5,000	-1,000
Interest Paid	-2,971	-2,789	-2,798	-2,507	-2,427	-2,697	-2,645	-3,423
Dividend Paid	-337	-673	-843	-1,630	0	-1,159	-1,700	-1,932
Others	-476	54	-3	-77	-68	-562	0	0
CF from Fin. Activity	-3,456	-7,419	1,727	-1,081	-1,375	114	655	-6,354
Inc./Dec. in Cash	622	1,242	-479	4,534	6,767	-5,624	172	-888
Opening Balance	3,731	4,353	5,595	5,116	9,650	16,416	10,793	10,965
Closing Balance	4,353	5,595	5,116	9,650	16,416	10,793	10,965	10,077

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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